TRANSPORTATION

Overview of the Transportation Budget

The Governor proposes total transportation expenditures of $14 billion ($2.3 billion General Fund) in 2006-07. This expenditure figure includes the following departments ($ in millions):

Department	General Fund	Other Funds	Total
Department of Transportation (Caltrans)	$2,326,287	$9,215,567	$11,541,854
California Highway Patrol (CHP)		1,574,849	1,574,849
Department of Motor Vehicles (DMV)		817,873	817,873
Special Transportation Programs (STP)		235,044	235,044
Office of Traffic Safety (OTS)		85,162	85,162
CA Transportation Commission (CTC)		2,075	2,075
High Speed Rail Authority (HSRA)		1,298	1,298

Proposed expenditures in 2006-07 are $770 million less than revised 2005-06 expenditures – primarily due to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes total expenditures of $2.1 million for the CTC. The only budget change proposal is the addition of one position to perform workload associated with the Toll Bridge Program Oversight Committee. This workload was added by AB 144 (Chapter 71, Statutes of 2005), which provided funding to finish the San Francisco-Oakland Bay Bridge seismic retrofit project and added additional oversight and reporting activities. The budget also reflects the full expenditure of Proposition 116 (Clean Air and Transportation Improvement Fund) bond funds - $5.4 million was expended in 2004-05; $2.0 million was expended in 2005-06; and no funds remain for expenditure in 2006-07.

2640 Special Transportation Programs

The Special Transportation Program (STP) provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation projects. Revenue comes from the sales tax on diesel fuel and a small portion of the sales tax on gasoline.

The Governor proposes funding of $235 million for Special Transportation Programs – an increase of $34 million (17 percent) over current-year funding. The increase is due to a higher revenue forecast for related fuel sales tax revenue (including a portion of Proposition 42 revenue). No Public Transportation Account "spillover" revenue is included in this funding, as current law retains the first $200 million in the General Fund and transfers the next $125 million for the San Francisco-Oakland Bay Bridge Project. More detail on the spillover revenue is included in the Department of Transportation section.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics; Highway Transportation; Mass Transportation; Transportation Planning; Administration; and the Equipment Service Center.

The Governor proposes total expenditures of $11.5 billion ($2.3 billion General Fund), a decrease of $900 million (7.2 percent) from the revised current-year budget. The reduction is primarily due to a fall in reimbursed workload tied to fluctuations in expenditures for the San Francisco-Oakland Bay Bridge project.

The proposed Caltrans budget reflects significant expenditure increases in both 2005-06 and 2006-07 relative to the enacted 2005 Budget Act. Federal funding has increased by $975 million in both years due to enactment in August 2005 of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which is the federal six-year transportation funding plan. Like the 2005-06 budget, the Governor proposes full Proposition 42 funding, which is estimated to be $1.4 billion. Additionally, the Governor proposes early repayment of $920 million (out of $1.35 billion due in 2007-08) of the Proposition 42 funds borrowed by the General Fund in 2004-05. Lastly, the budget reflects changes related to the San Francisco-Oakland Bay Bridge refinancing plan (AB 144, Chapter 71, Statutes of 2005), which shifts project oversight responsibility from Caltrans to the Bay Area Toll Authority. For this budget, AB 144 results in shifting Bay Bridge expenditures to reimbursed workload. The following three tables summarize the Caltrans budget.

Expenditure by Program (dollars in thousands)	**2005-06**	**2006-07**	**$ Change**	**% Change**
Aeronautics	$8,406	$8,506	$100	1.2
Highway Transportation	10,937,373	$9,868,377	-1,068,996	-9.8
Mass Transportation	818,794	1,138,391	319,597	39.0
Transportation Planning	154,622	190,941	36,319	23.5
Administration	341,670	335,639	-6,031	-1.8
Equipment Program*	179,764	(179,148)*	na	na
Total	$12,440,629	$11,541,854	-$898,775	-7.2

* The Administration proposes to change the Equipment Program to a distributed cost system in 2006-07

Expenditure by Category (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Personal Services	$1,871,905	$1,832,683	-$39,222	-2.1
Operating Expenses and Equipment	1,682,718	$1,414,038	-268,680	-16.0
Tort Payments	41,356	41,356	0	0.0
Debt Service (GARVEE bonds)	72,899	72,899	0	0.0
Local Assistance	2,536,515	3,311,234	774,719	30.5
Capital Outlay - Office Buildings	2,510	44,435	41,925	1670.3
Capital Outlay - Transportation Projects	6,190,387	4,794,209	-1,396,178	-22.6
Unclassified	42,339	31,000	-11,339	-26.8
Total	$12,440,629	$11,541,854	-$898,775	-7.2

Expenditure by Fund Type (dollars in thousands)	2005-06	2006-07	$ Change	% Change
General Fund	$1,345,148	$2,326,287	$981,139	72.9
Federal Trust Fund	3,362,881	$3,547,920	185,039	5.5
Special Funds and Bond Funds	4,884,934	3,913,729	-971,205	-19.9
Reimbursements	2,847,666	1,753,918	-1,093,748	-38.4
Total	$12,440,629	$11,541,854	-$898,775	-7.2

Proposition 42 Proposal

The major transportation budget issue annually since 2000-01, has been the transfer of gasoline sales tax revenue from the General Fund to transportation – this funding is also known as the Proposition 42 (Prop 42) transfer. A complete funding history of the program, with transfers and loans, is contained in the following section. For 2006-07, the Governor proposes full Prop 42 funding for transportation, which the Department of Finance estimates will be $1.4 billion. As required by the Constitution, the funding would be allocated as follows:

- $678 million for the Traffic Congestion Relief Program (TCRP) projects.
- $582 million for the State Transportation Improvement Program (STIP)
- $73 million for the Public Transportation Account (PTA)
- $73 million for State Transit Assistance to local agencies

As part of his Strategic Growth Plan, the Governor is proposing to amend the Constitution to prohibit any future suspensions of Prop 42 revenues. This means that Prop 42 revenue would always go to transportation, and never be available for transfer or loan for other General Fund expenditures – even in times of economic emergency or hardship. Additionally, the Governor proposes early repayment of $920 million of the Prop 42 funds borrowed by the General Fund in 2004-05. The allocation of this repayment is statutorily defined; however, the Administration proposes to amend statute to shift more of this early repayment from TCRP and the Public Transportation Account to the STIP and local streets and roads (after full repayment in 2007-08, the allocation would be consistent with current law). The proposed 2006-07 allocation is a follows:

- $410 million for the Traffic Congestion Relief Program (TCRP) projects.
- $255 million for the State Transportation Improvement Program (STIP)
- $255 million for the local streets and roads

Background on Proposition 42 and Past Transportation Loans

- **Origin of the Traffic Congestion Relief Program and Proposition 42.**
  - The Traffic Congestion Relief Program (TCRP) was established with the 2000-01 budget (AB 2928, Torlakson) as a *six-year* funding program – with $2 billion transferred from the General Fund to the Traffic Congestion Relief Fund in 2000-01 and gasoline sales tax revenue of approximately $1.1 billion to be transferred annually in 2001-02 through 2005-06 from the General Fund. The program did not increase taxes, but rather used existing General Fund revenue. Program revenue is statutorily distributed as follows:
    - $4.9 billion for 141 specified transportation projects.
    - $400 million to cities and counties for local streets and roads.
    - $5 million to the High Speed Rail Authority.
    - The remainder (about $2 billion) is proportionally allocated, with 40 percent for State Transportation Improvement Program projects, 40 percent for local streets and roads, and 20 percent for public transportation.
  - General Fund revenues for the 2001-02 budget were below the level anticipated at the time of AB 2928, and as part of the enacted 2001-02 budget, implementation of the annual gasoline sales tax transfers to the TCRP was delayed two years – to 2003-04. Cities and counties agreed to forgo their share of gasoline sales tax revenue in 2006-07 and 2007-08 in exchange for receiving what would otherwise be their share of 2001-02 and 2002-03 revenue – this was paid by the State Highway Account. To compensate the

State Highway Account programs, the cities and counties share in 2006-07 and 2007-08 is required to shift to the State Transportation Improvement Program (STIP). As part of the budget agreement, a proposition was submitted to voters which placed the program in the Constitution and made permanent the use of gasoline sales tax revenue for transportation. Voters approved Proposition 42, which also contained a provision that allows the suspension of the transfer when the Governor issues a proclamation of General Fund need and the Legislature approves implementing legislation with a two-thirds vote.

- **Traffic Congestion Relief Fund loans to the General Fund and Proposition 42 suspensions.**
  - ➢ The 2001 Budget Act, the 2002 Budget Act, and legislation enacting the 2002-03 mid-year budget revision, loaned a total of $1.38 billion from the Traffic Congestion Relief Fund to the General Fund with repayment due in 2005-06 (this was funding originally transferred from the General Fund to the TCRF in 2000-01).
  - ➢ The 2003 Budget Act partially suspended the 2003-04 Proposition 42 transfer with $289 million transferred and $868 million suspended. Repayment of the suspended amount is statutorily required in 2008-09. This funding level allowed projects with current allocations to continue, but was not sufficient to allow new project allocations.
  - ➢ The 2004 Budget Act fully suspended the 2004-05 Proposition 42 transfer of $1.258 billion with repayment statutorily required in 2007-08. However, the budget included several mechanisms for early repayment of the $1.383 billion loan due in 2005-06: a $43 million General Fund transfer; a $140 million transfer of "spillover" gasoline sales tax money that would otherwise go to the Public Transportation Account; and $1.2 billion from tribal gaming bonds (see also the "Tribal Gaming Bonds" section below)
  - ➢ The 2005 Budget Act fully funded Prop 42 with $1.345 billion transferred from the General Fund to the Transportation Investment Fund.
- **Intra-transportation loans.** Several loans have been made from the State Highway Account and the Public Transportation Account to backfill other transportation funds for the delayed implementation of the TCRP and the loans from the Traffic Congestion Relief Fund to the General Fund. These funds have stayed within transportation; however, they have shifted funds that would otherwise be available for highway capacity projects to TCRP projects (highway expenditures comprise 35 percent of expenditures for TCRP projects) and to local streets and roads projects.
  - ➢ As part of the 2001-02 refinancing of the TCRP, the State Highway Account transferred $143 million in 2001-02 and $150 million in 2002-03 to cities and counties, which represented the same amount expected if the sales tax on gasoline was transferred in those years. To repay the State for this loan, cities and counties forgo their 2006-07 and 2007-08 gasoline sales tax money (Prop 42 transfer) and this funding goes instead to the State Transportation Improvement Program.
  - ➢ Also as part of the 2001-02 refinancing of the TCRP, the State Highway Account financed capital outlay support for TCRP projects totaling $89 million over 2000-01 through 2002-03, with repayment due in 2006-07. The tribal gaming bonds that were part of the 2004 budget, if successfully sold, will repay this loan.

- The 2002 Budget Act included a $474 million loan from the State Highway Account to the Traffic Congestion Relief Fund. The 2003 Budget Act repaid $100 million, the 2004 Budget Act repaid $20 million, and the tribal gaming bonds, if successfully sold, will repay the remainder.
- The 2001 Budget Act and 2002 Budget Act included loans totaling $275 million from the Public Transportation Account to the Traffic Congestion Relief Fund, with repayment due in 2007-08. Repayment is planned from the tribal gaming bonds or annual tribal gaming revenue.

- **Tribal Gaming Bonds.** The 2005 Budget Act assumed $1 billion in tribal gaming bonds would successfully be sold in 2005-06 – originally it was assumed the bonds would sell in 2004-05 and generate $1.2 billion. Lawsuits have delayed the issuance of the bonds. While legal issues are still outstanding, the Governor's 2006-07 budget assumes the bonds will be successfully sold in the spring of 2006. If successfully sold, the bonds would partially repay $1.2 billion in loans made from the Traffic Congestion Relief Fund to the General Fund, and associated loans from the State Highway Account and the Public Transportation Account to the Traffic Congestion Relief Fund. To the degree the bonds do not fully repay the loans, the outstanding amounts would be repaid from annual tribal gaming revenue. Statute no longer contains a full repayment due date for the TCRF loans.

Summary of Transportation Loans to the General Fund

Transportation Loans to the General Fund (in thousands) *	Loan Amount	Amount repaid to date	Repayment in Proposed Budget (through 2006-07)	Outstanding amount (after 2006-07) *	Current-law due date
►Traffic Congestion Relief Fund loans (from 2001-02 & 2002-03)	$1,383,000	$183,000	$1,000,000	$200,000	none
►2003-04 Propositions 42 loan	868,000		0	868,000	June 30, 2009
►2004-05 Proposition 42 loan	1,258,000		920,000	338,000	June 30, 2008
Total	$3,509,000	$183,000	$1,920,000	$1,406,000	

* Interest is required, but not included in these calculations

Public Transportation Account "Spillover" Revenue

For 2006-07, the Governor projects spillover revenue of $317 million, and consistent with current law, retains $200 million in the General Fund and transfers $117 million to support the San Francisco–Oakland Bay Bridge project. Under current law, any spillover revenue in 2006-07 that exceeds $325 million would be transferred to the Public Transportation Account with half of that amount transferred to local transit agencies through the Special Transportation Programs budget item.

Background. The spillover transfer dates back to legislation enacted in the early 1970's. Chapter 1400, Statutes of 1971, relinquished 0.25 percentage points of the state's 4.00 percent sales tax to local governments to fund transportation development (primarily mass transit). To hold the General Fund harmless, the tax base was broadened to include gasoline. The legislation further provided a mechanism to assure that the General Fund would not benefit as a result of the broadened tax base – this "spillover" formula transfers any net General Fund revenue gain to the Public Transportation Account (PTA). Half of this PTA transfer is then transferred to local transit agencies through the Special Transportation Program budget. The spillover only occurs in years when gasoline prices are high relative to the prices of other goods.

No spillover occurred during the period of 1994-95 through 2000-01, or in 2002-03; however, a spillover of $11.3 million occurred in 2001-02. In recent years, spillover revenue has been triggered, but the revenue has been retained in the General Fund or transferred to the Traffic Congestion Relief Fund as part of General Fund loan repayment.

- The 2003 Budget Act projected a spillover of $87 million and associated trailer-bill legislation retained that amount in the General Fund (with any amount above $87 million to be transferred to the Public Transportation Account). Actual spillover revenue turned out to be $88.7 million.
- The 2004 Budget Act projected a spillover of $140 million and trailer-bill legislation directed that amount to the Traffic Congestion Relief Fund as partial repayment of past loans to the General Fund (any excess spillover was retained by the General Fund). Actual spillover revenue turned out to be $225.8 million.
- The 2005 Budget Act projected a spillover of $380 million and trailer-bill legislation retains the full spillover in the General Fund. In part, this General Fund relief allowed for the first full Proposition 42 transfer in 2005-06. The revised estimate for spillover revenue is $398.0 million.
- The 2006-07 spillover is affected by legislation enacted in during the 2005 session. The budget trailer bill SB 62 (Chapter 62, Statutes of 2005) retains the first $200 million of spillover revenue in the General Fund. Assembly Bill 144 (Chapter 71, Statutes of 2005), dedicates up to $125 million in spillover revenue to the Bay Bridge project (revenue exceeding $200 million, up to $325 million). If revenue ultimately ends up exceeding $325 million in 2006-07, that amount would be transferred to the Public Transportation Account.

Governor's Strategic Growth Plan

The Governor includes $107 billion for transportation in his $222 billion Strategic Growth Plan. The following table identifies the Administration's categories of transportation expenditures (in billions):

Category of Investment	GO Bond	Other Funding	Total
Port Mitigation	$ 1.0	$ 1.0	$ 2.0
Highways	5.6	47.7	53.3
Transit/Rail	0.7	3.8	4.5
Technology – ITS	0.2	3.1	3.3
Safety and Preservation	1.5	27.4	28.9
Trade Infrastructure	3.0	12.0	15.0
TOTAL	$12.0	$95.0	$107.0

The *Other Funding* category, noted above, includes $47 billion in revenue from existing sources such as gasoline excise taxes and vehicle weight fees. Additionally, $48 billion is identified from "new" funding sources such as reauthorized local sales tax measures, tolls/container fees, and bonding against existing transportation revenues. As part of the plan, the $10 billion high-speed rail bond would be removed from the November 2006 ballot; however, the High Speed Rail Authority is not proposed for elimination. The 2006-07 Governor's Budget does not include any Caltrans augmentations related to the Strategic Grown Plan; however, the Administration will submit a Finance Letter in May that zero-bases Capital Outlay Support staffing, and that could include augmentations related to this proposal.

Major Budget Proposals

Highway Maintenance Funding. The Administration requests a permanent increase of $105.3 million for highway infrastructure preservation. The department's 2005 Five-Year Maintenance Plan described the existing maintenance backlog and proposed to augment the State Highway Operation and Protection Program (SHOPP) by $105.3 million. This augmentation is not mentioned in the budget documents; however, Caltrans indicates the increase was built into the SHOPP appropriation. Historically, this preservation work would be budgeted and staffed in the Maintenance Program. Under the Administration proposal, the work would be budgeted and staffed in the Capital Outlay Support program. As such, no new positions are budgeted for this workload – instead staffing changes would be included in the May Revision Finance Letter for the zero-based Capital Outlay Support staffing.

Information Technology (IT) Projects. The Department requests approval for two large IT projects, which would have total costs of $41.8 million through completion. The Integrated Financial Management Systems (IFMS) would cost $21.8 million ($3.1 million in 2006-07) and would improve financial reporting. The Construction Management System (CMS) would cost $21 million ($950,000 in 2006-07) and improve the quality of project-management record keeping. IFMS would use commercial-off-the-shelf software, while CMS would employ custom software. Funding for these projects, and two other IT projects, was originally requested by the Administration in 2002-03 (at a total cost of $75 million); however, funding was denied until Caltrans completed its Information Technology Systems Enterprise Integration Strategy. The final Integration Study was issued June 30, 2004.

Owner Controlled Insurance Program. The Department requests funding of $1.4 million and one position on a three-year limited term basis to implement the Owner Controlled Insurance Program (OCIP). The concept of OCIP is that the Department, as the owner, purchases major insurance coverage for its construction projects. Under current projects, the Department pays insurance costs indirectly through inclusion of the cost in the contractors' bids. Caltrans estimates a potential savings ranging from $42 million to $64 million over the duration of the three-year program.

Equipment Program Changes. The Department requests to dismantle the Internal Service Fund known as the Equipment Service Fund and instead operate the Equipment Program as a distributed-cost program. The Equipment Service Fund was established in 1997-98 with the stated goal of better-managing the fleet across Caltrans programs and renting idle equipment to local governments. Annual savings/cost recoveries of up to $5.7 million, as originally envisioned, never materialized.

Oakland District Office Building Seismic Retrofit. The Administration requests $44.3 million to fund the construction-phase of the Oakland district office building seismic retrofit. The 2005 Budget Act included $2.2 million to fund the working drawings for this project.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at $37 billion.

The Governor proposes $1.3 million in total expenditures for the HSRA, a decrease of $3.9 million (75 percent) from the current-year budget. The large budget decrease is due to the expiration of one-time funding for environmental studies and a financing plan. Current law provides for a proposition on the November 2006 ballot to provide $9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor proposes $1.6 billion in total expenditures (no General Fund) for the CHP, an increase of $124 million (9 percent) from the current-year budget.

Major Budget Proposals

Enhanced Radio System. The Administration requests approval for a five-year funding plan totaling $494 million to enhance the Departments' existing public safety radio system. Improvements would enable radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The 2006-07 augmentation would be 10 positions and $57 million.

Officer Staffing Augmentation. The Administration requests a permanent increase of $41.9 million to augment staffing 310 positions (240 Officers and 70 supervisory and non-uniformed support staff). The increase would be phased in over two years, with 2006-07 funding at $33.7 million and staffing at 235 positions (165 Officers and 70 supervisory and non-uniformed support staff). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

Wireless 9-1-1 Dispatcher Staffing Augmentation. The Administration requests a permanent increase of $7.2 million to augment staffing 173 positions (156 Dispatchers and 17 supervisory positions). The increase would be phased in over two years, with 2006-07 funding at $6.3 million and staffing at 93.5 positions (85 Dispatchers and 8.5 supervisory positions). The CHP indicates this increase would help address the continual increase in workload associated wireless 9-1-1 calls.

Capital Outlay. The Administration requests an augmentation of $5.7 million for six major capital outlay facilities projects – most of the funding is for working drawings and land acquisition. The majority of these projects involve the replacement of existing CHP area offices. Construction costs would be requested in future budgets. When future estimated construction costs are included, the total cost for these projects is $39.3 million.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of $818 million (no General Fund), an increase of $47 million (6 percent) from the current-year budget.

Major Budget Proposals

Electronic Insurance Verification. The Administration requests an augmentation of $9.3 million to implement SB 1500 (Chapter 920, Statutes of 2004). This legislation requires each insurer that issues private passenger automobile liability policies, to electronically report to the DMV all issued policies, changes, and terminations; and requires DMV to suspend vehicle registrations if insurance is not in force. Ongoing costs in 2007-08 and thereafter are identified at $13.5 million.

Remittance System Replacement. The Administration requests one-time funding of $5.4 million and ongoing funding of $523,000 to replace the remittance system used for mail extraction and payment processing.

Major Issue

Federal REAL ID Act. On May 11, 2005, President Bush signed H.R. 1268, which includes the REAL ID Act of 2005. Regulations from the federal government on the implementation of this law are expected later this year; however, the Act is expected to present major challenges and costs for the DMV and the people of California. The Act will require Californians to have a compliant driver's license or identification card by May of 2008 in order to enter a federal building or cross an airport checkpoint. No federal funds are provided for implementation and the cost to DMV may be in the hundreds of millions of dollars to one billion dollars. The Administration indicates no budget augmentation is requested for REAL ID Act implementation because the regulations have not been promulgated.